

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

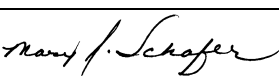
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



**City of Charlotte, Michigan  
Eaton County, Michigan**

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**Comprehensive Annual Financial Report  
with Supplemental Information  
Prepared by the Office of Finance and Treasury  
Year Ended June 30, 2006**

# City of Charlotte, Michigan

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## **Introductory Section**

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# *City of Charlotte*

*111 E. LAWRENCE AVENUE  
Charlotte, Michigan 48813*

*517-543-2750  
Fax 517-543-8845*

September 21, 2006

To the Honorable Mayor,  
Members of the City Council,  
City Manager Dennis Stark, and the  
Citizens of the City of Charlotte

The comprehensive annual financial report of the City of Charlotte for the year ending June 30, 2006, is hereby submitted as mandated by both local ordinances and State statutes. These ordinances and statutes require the City of Charlotte to annually issue a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Charlotte. All disclosures necessary to enable the reader to gain an understanding of the City of Charlotte's activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, and a list of the City of Charlotte's principal elected and appointed officials. At the beginning of the financial section, you will find the Management's Discussion and Analysis, which is intended to give an easily readable analysis of the City's financial performance for the year. The financial section also includes the Government-wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements, Required Supplemental Information and Other Supplemental Information., as well as the independent auditor's report on these financial statements and schedules. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Charlotte is located in the heart of Michigan, 18 miles southwest of the capital city of Lansing. The City currently has a land area of approximately 5 ½ square miles and an estimated population of about 8,700. Charlotte is the hub of three interstate highways: Interstates 69, 96 and 94. These highways provide excellent access to all major markets in Michigan, the Mid-West and Canada.

Only 200 years ago, the land on which the city is located was an overgrown prairie with an abundance of wild flowers, inhabited by Chippewa and Pottawatamie Indians. Indian paths crisscrossed the area and one trail became the preferred route for early pioneers. Running from Detroit to Grand Rapids, settlers named it Clinton Trail; today it is known as state highway M-50. The pioneer settlement located in the middle of Eaton County was incorporated as a village in 1863. Railroads brought growth to Michigan and Charlotte grew as well. Charlotte was incorporated as a city in 1871. Several beautiful homes and buildings in the downtown area, which still survive today, characterize the growth of the city. E.B.



Bostwick, an early landowner, held the contract for all of Eaton County and suggested the city be named for his new bride, Charlotte (pronounced Shar-LOT).

The City's most notable attributes are its outstanding schools and parks; the Eaton County government complex; the Hayes Green Beach Memorial Hospital and specialty clinics facility; and the developing Combs industrial park, which consists of 190 acres. Seven manufacturing facilities and one warehousing facility currently occupy this industrial park.

The City provides a full range of municipal services as established by statute or charter. These services include police and fire protection, water and sewer utility services, the construction and maintenance of roads, streets and infrastructures, recreational activities and general administrative services.

For financial reporting purposes, this report includes all the funds of the City of Charlotte, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City of Charlotte Downtown Development Authority (DDA) and the Local Development Financing Authority (LDFA) are reported as discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The City's Building Authority is reported as a blended component unit. Although blended component units are legally separate, they are reported as if they are part of the primary government. The primary purpose of the City's Building Authority is to finance and construct the City's public buildings.

### **ECONOMIC CONDITION AND OUTLOOK**

The City council was pro-active in using conservative budgeting practices in an effort to maintain healthy fund balances. In developing the 2006/2007 fiscal year budget, the impact of a stagnate national economy, perpetually increasing health care costs, rising gas and utility costs, as well as potential State of Michigan budget cuts were taken into account. In addition, the number of full-time employees was held constant.

Housing stock is being upgraded through both voluntary measures and code enforcement efforts. Although the City has experienced a slowdown of residential growth in the past year, we continue to realize economic growth through commercial developments. New developments currently under construction or approved by the planning commission to begin in FY 06/07 include: Spartan Motor's expansion; assisted living facility on North Cochran; new dentist office on West Lawrence; and construction of a new McDonald's on Lansing Road to replace their existing building.

The City maintains strong leadership through both its City Manager and department heads. The City's leadership team has over 100 years of combined public service experience and is ready to solve any challenge presented.

## **MAJOR INITIATIVES**

The City is recognized as a growing and progressive community in the Lansing region and receives positive media coverage in both the Charlotte Shopping Guide and Lansing State Journal. Economic development is actively encouraged, as demonstrated by the steady growth during the past ten years.

Following are highlights of some of the City's major projects recently completed or planned for the future:

***State of Michigan's Blueprints Program*** – The City of Charlotte Downtown Development Authority, along with several other area partners, including the Charlotte Chamber of Commerce, the Charlotte Public Schools, Can Do!, Hayes Green Beach Memorial Hospital and the Charlotte Fraternal Order of Police, continue the implementation of the downtown revitalization plan established by HyettPalma, Inc. as part of the State of Michigan's Blueprints for Michigan Downtowns Program.

***State of Michigan's Cool Cities Designation*** – In 2005, the City of Charlotte's downtown district was officially designated as a Michigan Cool Cities Neighborhood in Progress by the State of Michigan. This special designation was the result of the city's participation in the Blueprints for Michigan Downtowns program. It is a designation only, and no grants, projects or programs are associated with it at this time, other than Blueprints.

***Brownfield Assessment Grants*** –The City applied for, and was awarded, two grants of \$200,000 each from the United States Environmental Protection Agency for the purposes of identifying, prioritizing, and analyzing those previously developed properties within the city which could be reused if issues of contamination or perceived contamination were remedied. These grant awards did not result in any fiscal year 2005/2006 revenues or expenditures.

***Street/Sidewalk Improvements*** – Sidewalk repairs/construction totaling \$68,000 were completed during fiscal year 2005/2006. In addition, \$73,500 is appropriated in the 2006/2007 fiscal year budget for sidewalk repairs, maintenance and construction.

***Parks and Recreation*** – Through the generosity of the local Rotarians, the construction of a pavilion at Dean Park is scheduled to be constructed in the next fiscal year. In anticipation of this expansion to Dean park, the City has budgeted \$4,000 for utility connections and \$10,000 for the installation of a gravel parking lot.



***Fire Department*** – A building was constructed, at the Paine drive training site, to store the department's hazardous material trailer. By utilizing General Motors' job bank employees and volunteer firefighters to construct the building, the City's costs were for material and supplies only. The City's total cost of construction was \$23,600.

***Information Technology*** – The City unveiled a new website format during the year. Residents now have access to property tax and assessing information as well as City Council minutes and agendas. In addition, the City continued its routine upgrade of computer equipment through the purchase and installation of various computers, printers and software upgrades

The City administration remains customer focused and is pro-active in meeting customer needs. Through participation in several community functions and activities, the Fire and Police departments continued their outreach to the residents of Charlotte.

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise funds and internal service funds are maintained on the accrual basis. Fixed assets used in governmental fund type operations and long-term liabilities expected to be financed from governmental funds are accounted for at the government-wide level, not in the governmental funds.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control is subject to periodic evaluation by management of the City and the external-independent audit staff retained by the City for required periodic audits.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Activities of the general fund and special revenue funds are included in the annual appropriated budget. Project-length budgets are prepared for capital projects funds, if any. The level of budgetary control (i.e. the level at which expenditures cannot legally exceed the appropriated amount) is the functional level within each fund.

### **GENERAL GOVERNMENTAL FUNCTIONS**

**REVENUES** and other financing sources for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$5.36 million during the fiscal year ended June 30, 2006, an increase of 0.66% from the preceding year. The amounts received from various sources and representative percentages are shown below:

<i>Revenues and sources</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
Taxes and assessments		\$2,765,665	51.54%	\$88,946	3.32%
Licenses and permits		55,985	1.04%	(3,033)	-5.14%
Intergovernmental		1,770,652	33.00%	(55,108)	-3.02%
Charges for services		210,051	3.91%	2,104	1.01%
Fines and forfeits		29,207	0.54%	132	0.45%
Other revenue		195,088	3.64%	(34,586)	-15.06%
<b>Total revenues</b>		<b>\$5,026,648</b>	<b>93.67%</b>	<b>(\$1,545)</b>	<b>-0.03%</b>
	<b>Other sources</b>	<b>339,686</b>	<b>6.33%</b>	<b>36,872</b>	<b>12.18%</b>
<b>Total revenues and other sources</b>		<b>\$5,366,334</b>	<b>100.00%</b>	<b>\$35,327</b>	<b>0.66%</b>

The largest source of local revenues was, once again, general property taxes, which increased from \$2.68 million in fiscal year 2004/2005 to \$2.77 million in fiscal year 2005/2006. These taxes, which include real and personal property levies, produced \$88,946 more in fiscal year 2005/2006 than in fiscal year 2004/2005 as a result of an increase in residential and commercial property. The decrease in intergovernmental receipts is attributable to receiving 67% of the City's MSHDA grant funds in the prior fiscal year.

### **GENERAL GOVERNMENTAL FUNCTIONS (Continued)**

EXPENDITURES and other financing uses for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$5.10 million during the fiscal year ended June 30, 2006, a decrease of 2.05% from the preceding year. Expenditures and other uses for the major functions of the City are recorded as follows:

<i>Expenditures and uses</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
General government		\$595,040	11.66%	(\$10,012)	-1.65%
Public safety		2,496,011	48.90%	90,818	3.78%
Public works		1,045,120	20.48%	33,261	3.29%
Recreation & culture		154,971	3.04%	(13,747)	-8.15%
Community & economic development		143,715	2.82%	30,515	26.96%
Capital outlay		212,746	4.17%	(271,528)	-56.07%
Debt Service		138,885	2.72%	(3,270)	-2.30%
<b>Total expenditures</b>		<b>\$4,786,488</b>	<b>93.78%</b>	<b>(\$143,963)</b>	<b>-2.92%</b>
Other uses and transfers		317,416	6.22%	37,402	13.36%
<b>Total expenditures and other uses</b>		<b>\$5,103,904</b>	<b>100.00%</b>	<b>(\$106,561)</b>	<b>-2.05%</b>

The completion of the skatepark construction project combined with pass through MSHDA rehabilitation grant funds in the prior year, resulted in the significant decrease in the capital outlay category for the current year.

FUND BALANCES of the General, Special Revenue, Debt Service and Capital Project Funds totaled \$2.93 million as of June 30, 2006. Total fund balance of the General Fund stands at \$1.48 million; with the Special Revenue and Debt Service Funds at \$1.44 million and \$2,360 respectively. The General Fund's unreserved-undesignated fund balance of \$0.98 million represents 21% of the General Fund's 2006/2007 fiscal year budgeted non capital expenditures.

### **ENTERPRISE FUNDS**

The City's enterprise operations are comprised of the water supply and sewage disposal system, and the recycling center. The primary purpose of the enterprise funds is to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs (including depreciation) of providing services to the general public on a continuing basis, be financed or recovered primarily through user charges. It is also intended, under current City Council policy, that utility rates be sufficient to make any debt service for debt incurred to replace, expand, or improve the utility system infrastructure.

The Water Supply and Sewage Disposal Fund recorded an increase in net assets of \$0.35 million for fiscal year 2005/2006. The fund had net working capital of \$648,300 and unrestricted cash and investments totaling \$595,566 as of June 30, 2006.

## **RISK MANAGEMENT**

Under a comprehensive plan of risk management, the City maintains property, liability, and workers compensation insurance coverage through the Michigan Municipal League Property and Liability Pool and other commercial carriers. The City currently has self-insurance programs for employee short-term disability, eye care reimbursement, third party administered Blue Cross/Blue Shield deductible, and third party administered prescription purchase.

The City has adopted general safety policies and guidelines, with supplemental guidelines adopted by most City departments. Safety committees are in place in each department, with oversight by a general safety committee comprised of all City department heads and the manager. The committees hold training sessions, review specific risks, and review incident reports with recommendations for correction as a follow-up. City administration also holds mandatory safety and voluntary wellness programs each year.

## **CASH MANAGEMENT AND INVESTMENTS**

The City is conservative in its approach to cash management with a realization that there is a time-value to money. A high priority has been placed on procedures to ensure that all monies due the City are collected and deposited as promptly as possible. Disbursements are closely controlled and wire transfers are used whenever appropriate.

Of equal importance is the emphasis on investment portfolio management. Investments of temporarily idle funds are invested in certificates of deposit with maturities ranging from 30 to 180 days depending on when the money is needed. The City pools the cash of various funds, except in certain restricted and special accounts, to maximize interest earnings. These investments are consistent with the City's policy to minimize credit and market risk while maintaining a competitive yield on its portfolio.

## **INDEPENDENT AUDIT**

State statutes require an annual audit by independent certified public accountants. The firm of Plante & Moran, PLLC was selected by the city council to conduct the required audit.

## **AWARDS**

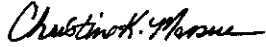
The City of Charlotte has been presented the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2005. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report will also meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for a certificate.

### ACKNOWLEDGEMENTS

I want to thank the Finance and Treasury department staff for their efforts in preparing this report and all the City departments for their cooperation and assistance throughout the past year. I also greatly appreciate the support extended by the City Manager, Mayor and City Council.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Christine K. Mossner".

Christine K. Mossner, CPA  
Finance Director

# City of Charlotte, Michigan

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## List of Elected and Appointed Officials June 30, 2006

### City Council:

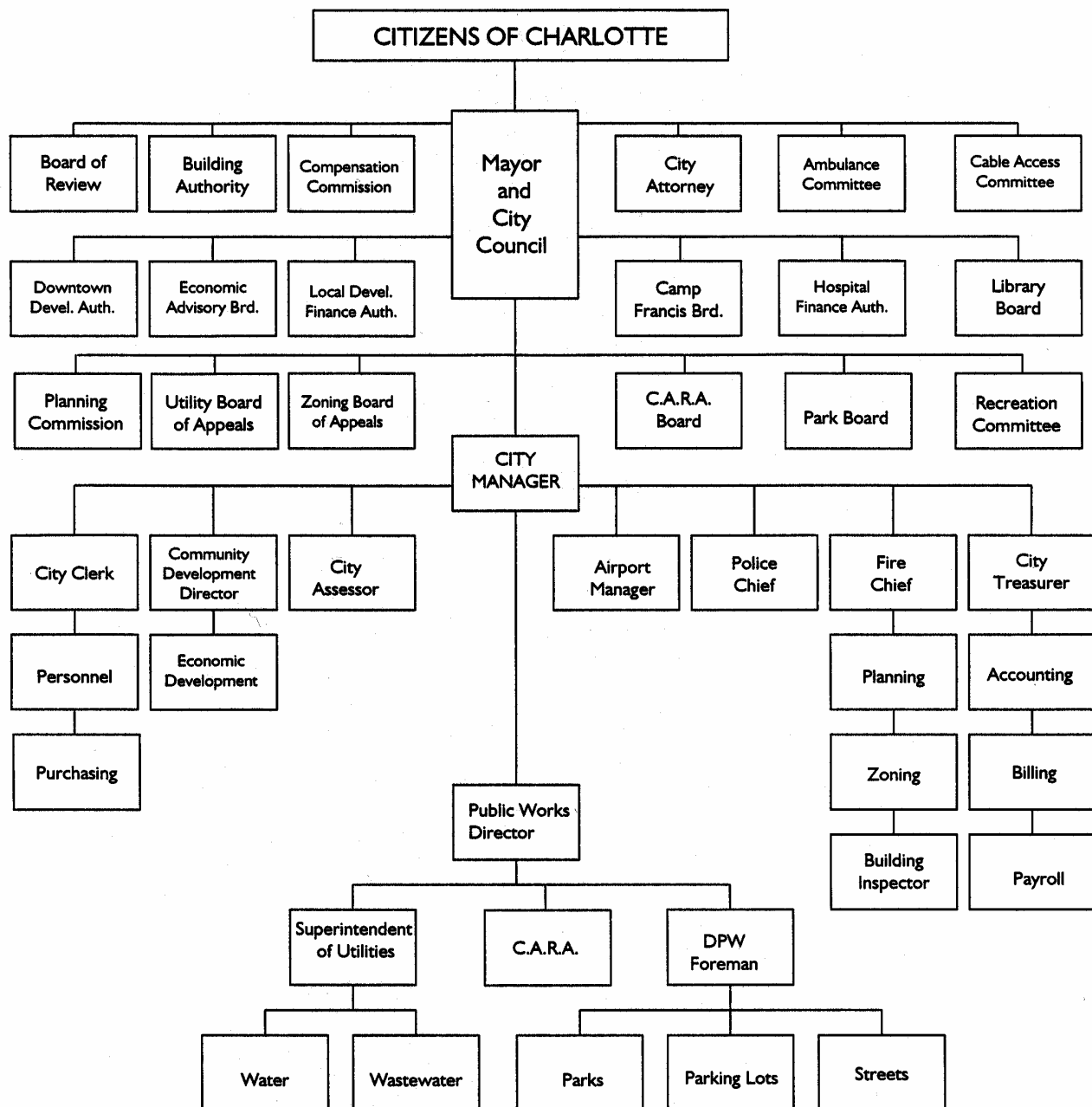
Mayor	Deb Shaughnessy
Mayor Pro-Tem	Tom Raymond
Trustee	Mary Jean Baker
Trustee	Kevin Weissenborn
Trustee	Tim Lewis
Trustee	Deleski Smith
Trustee	James Manning

### Appointed Officials:

City Manager	Dennis Stark
Fire Chief	Kevin Fullerton
Assessor (Contract)	Randy Jewell
Clerk	Catalina Beasley
Finance Director	Christine Mossner
Director of Public Works	Amy Schoonover
Police Chief	Bill Callahan

# City of Charlotte, Michigan

## Organizational Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Charlotte,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carla E. Fudge*

President

*Jeffrey R. Emer*

Executive Director



## **Financial Section**

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## Independent Auditor's Report

To the City Council  
City of Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Charlotte, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council  
City of Charlotte, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran, PLLC*

September 21, 2006

# City of Charlotte, Michigan

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## Management's Discussion and Analysis

The following discussion and analysis of the City of Charlotte, Michigan's annual financial report presents our view of the City's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which follow beginning on page 11.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31.6 million (net assets). Of this amount, \$2.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$8.1 million in revenues and \$8.3 million in expenses, resulting in a decrease in net assets of approximately \$0.2 million. Of the City's \$8.3 million expense total, \$2.8 million related to business-type expenses and the balance of \$5.5 million related to governmental activities.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2.9 million, an increase of \$0.3 million from the prior year. Approximately 82.4 percent of this amount is available for spending at the government's discretion (unreserved fund balance). The remaining 17.6 percent has been reserved and/or designated.

At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$0.98 million or 23.6 percent of the General Fund's total expenditures.

### Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

The governmental fund statements tell how general government services, such as public safety, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water supply and sewage disposal systems.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and agency funds.

### Government-Wide Statements

The City's government-wide statements begin on page 11 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and federal grants are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water supply and sewage disposal systems are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and Local Development Financing Authority. The City is financially accountable for these "component units" although they are legally separate entities.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The City's fund financial statements begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - In fact, the City's enterprise funds (Water Supply and Sewage Disposal Fund and the Recycling Fund) are the business-type activities reported in the government-wide statements, but provide more detail in the proprietary funds statements.
  - We use an Internal Service Fund (the other type of proprietary fund) to report equipment rental services to the City's other programs and activities, which is reported in the Motor Vehicle Pool Fund.
- Fiduciary funds - The City acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. A separate statement of fiduciary assets and liabilities is presented on page 20 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole

The City's combined net assets decreased from \$31.8 million to \$31.6 million. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(in thousands)					
Current assets	\$ 3,586	\$ 3,508	\$ 2,197	\$ 1,866	\$ 5,783	\$ 5,374
Noncurrent assets	18,448	19,125	17,324	17,776	35,772	36,901
Total assets	22,034	22,633	19,521	19,642	41,555	42,275
Current liabilities	386	324	689	645	1,075	969
Long-term liabilities	1,542	1,699	7,324	7,837	8,866	9,536
Total liabilities	1,928	2,023	8,013	8,482	9,941	10,505
Net assets:						
Invested in capital assets -						
Net of related debt	17,278	17,875	9,535	9,534	26,813	27,409
Restricted	1,258	978	840	865	2,098	1,843
Unrestricted	1,570	1,757	1,133	761	2,703	2,518
Total net assets	<u>\$ 20,106</u>	<u>\$ 20,610</u>	<u>\$ 11,508</u>	<u>\$ 11,160</u>	<u>\$ 31,614</u>	<u>\$ 31,770</u>

A substantial portion of the City's net assets (84.8 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related outstanding debt used to acquire those assets. Such assets are used to provide services to the citizens of Charlotte and are therefore not available for future spending.

Net assets of the City's governmental activities decreased by 2.5 percent to \$20.1 million. This decrease is due to expenses exceeding revenues for the year. This anticipated variance was covered by a draw on net assets as decided during the budget process.

The net assets of our business-type activities increased by 3.1 percent to \$11.5 million during the fiscal year. This increase is due to revenues exceeding expenses.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(in thousands)					
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 743	\$ 689	\$ 2,874	\$ 2,855	\$ 3,617	\$ 3,544
Operating grants and contributions	36	69	25	18	61	87
Capital grants and contributions	203	562	122	-	325	562
General revenue:						
Property taxes	2,712	2,612	-	-	2,712	2,612
State-shared revenue	1,097	1,095	9	-	1,106	1,095
Unrestricted investment earnings	114	42	78	26	192	68
Transfers and other revenue	78	142	1	118	79	260
Total revenue	4,983	5,211	3,109	3,017	8,092	8,228
<b>Program Expenses</b>						
General government	651	609	-	-	651	609
Public safety	2,613	2,542	-	-	2,613	2,542
Public works	1,811	1,931	-	-	1,811	1,931
Community and economic development	169	275	-	-	169	275
Recreation and culture	186	55	-	-	186	55
Interest on long-term debt	57	63	-	-	57	63
Trash and recycling	-	-	50	49	50	49
Water and sewer	-	-	2,711	2,789	2,711	2,789
Total program expenses	5,487	5,475	2,761	2,838	8,248	8,313
<b>Change in Net Assets</b>	<b>\$ (504)</b>	<b>\$ (264)</b>	<b>\$ 348</b>	<b>\$ 179</b>	<b>\$ (156)</b>	<b>\$ (85)</b>



# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

- The cost of all governmental activities this year was \$5.5 million.
- The amount that City taxpayers paid for these activities through City taxes was \$2.7 million.
- Some of the cost (\$.98 million) was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions.
- The City's governmental activities revenues are comprised predominantly of property taxes and state-shared revenue (54.4 percent and 22.0 percent, respectively). The City has minimal control over either of these revenue sources. The City's ability to raise property tax revenue is limited by the levying constraints of both Proposal A and the Headlee amendment. In addition, state budgetary constraints have resulted in the legislature freezing state revenue-sharing amounts at prior year's levels.
- A combined 80.6 percent of the City's governmental activities expenses are for "public benefit" services such as fire protection, police protection, and city street maintenance and construction.

### Business-type Activities

Operating revenues of the City's business-type activities of water supply, sewage disposal, and recycling were \$3.1 million and operating expenses were \$2.8 million, resulting in net income of \$0.3 million for these operations.

### Financial Analysis of the City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on page 14) reported a combined fund balance of \$2.9 million, a \$0.2 million increase over the prior year. This increase is attributable to the building up of fund balance in the Major and Local Street Funds for future projects.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Water Supply and Sewage Disposal Fund realized a total growth in net assets of \$0.4 million and unrestricted net assets at the end of the year of \$1.1 million. The Recycling Fund had a loss of net assets of \$7,168 for total unrestricted net assets at year end of \$19,323.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$69,015 or a 1.4 percent increase in appropriations. This increase is attributable to the appropriation needed to accommodate the expenditures associated with the MSHDA housing rehabilitation grant.

### Capital Assets

At June 30, 2006, the City had invested approximately \$35.7 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, sidewalks, parking lots, and water and sewer lines (see Table below):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(in thousands)					
Land	\$ 1,860,936	\$ 1,860,936	\$ 104,995	\$ 104,995	\$ 1,965,931	\$ 1,965,931
Construction in progress	68,944	34,838	-	-	68,944	34,838
Infrastructure	22,306,419	22,125,160	-	-	22,306,419	22,125,160
Buildings and improvements	2,703,800	2,680,191	26,059,571	25,980,286	28,763,371	28,660,477
Vehicles	2,097,657	1,958,176	-	-	2,097,657	1,958,176
Equipment	2,705,180	2,657,621	-	-	2,705,180	2,657,621
Subtotal assets	31,742,936	31,316,922	26,164,566	26,085,281	57,907,502	57,402,203
Accumulated depreciation	13,295,300	12,191,968	8,840,553	8,309,344	22,135,853	20,501,312
Net capital assets	<u>\$ 18,447,636</u>	<u>\$ 19,124,954</u>	<u>\$ 17,324,013</u>	<u>\$ 17,775,937</u>	<u>\$ 35,771,649</u>	<u>\$ 36,900,891</u>

Construction in progress includes the engineering and design costs for various street construction projects in the city which include Sheldon Street, Brackett Street, Jefferson Street, Parkland Drive, and Lipsey Drive. Construction of Sheldon, Brackett, and Jefferson Streets began in July 2006 and is anticipated to be completed by early fall 2006. The expansion of Parkland and Lipsey Drives, in the industrial park, is on hold pending approval of the environmental permits by the State of Michigan. More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

### Debt

At year end, the City had \$9.1 million in bonds and notes outstanding. This represents a \$578,482 decrease from the previous year. The City refunded its 1999 revenue bonds during the current fiscal year to take advantage of lower interest rates. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

# **City of Charlotte, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budget and Rates**

The City's budget for the 2007 fiscal year is balanced with a level property tax rate of 13.417 mills. Estimated property tax revenues are expected to increase by approximately \$128,000. As stated earlier, the City's General Fund revenue is comprised predominantly of property taxes and state-shared revenue. The City has seen a leveling off of state-shared revenue receipts since fiscal year 2001/2002 due to State budget shortfalls. The projected 2006/2007 fiscal year budget amount is only slightly higher than what was received in fiscal year 1998/1999. This reduction in state-shared revenue, coupled with minimal property tax growth, has hindered the City's ability to realize revenues adequate enough to maintain current services and yet meet the demands of escalating employee benefit and operating expenditures. As a result, the City again limited its capital outlay expenditures for fiscal year 2006/2007, but maintained all staffing levels and services to the public.

Total expenses in the General Fund for fiscal year 2006/2007 are estimated to be \$4.9 million. The public safety departments represent the single largest component of overall budget expenditures with a total estimated cost of \$2.6 million.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Charlotte, 111 E. Lawrence Ave., Charlotte, Michigan 48813.

# City of Charlotte, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>Assets</b>				
Cash and investments (Note 3)	\$ 2,728,380	\$ 613,226	\$ 3,341,606	\$ 723,947
Receivables - Net (Note 4)	676,189	520,608	1,196,797	5,857
Prepaid costs and other assets	179,285	223,219	402,504	-
Restricted assets (Notes 3 and 8):				
Cash and investments	2,360	840,427	842,787	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	1,929,880	104,995	2,034,875	-
Assets subject to depreciation	<u>16,517,756</u>	<u>17,219,018</u>	<u>33,736,774</u>	<u>-</u>
Total assets	<u><b>\$ 22,033,850</b></u>	<u><b>\$ 19,521,493</b></u>	<u><b>\$ 41,555,343</b></u>	<u><b>\$ 729,804</b></u>
<b>Liabilities</b>				
Accounts payable	\$ 158,162	\$ 17,531	\$ 175,693	\$ 6,081
Accrued and other liabilities	119,582	206,899	326,481	-
Noncurrent liabilities (Note 7):				
Due within one year	107,874	465,000	572,874	-
Due in more than one year	<u>1,541,958</u>	<u>7,324,449</u>	<u>8,866,407</u>	<u>-</u>
Total liabilities	<u>1,927,576</u>	<u>8,013,879</u>	<u>9,941,455</u>	<u>6,081</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	17,277,656	9,534,564	26,812,220	-
Restricted:				
Debt service	2,360	840,427	842,787	-
Streets and highways	1,237,274	-	1,237,274	-
Other purposes	18,611	-	18,611	-
Unrestricted	<u>1,570,373</u>	<u>1,132,623</u>	<u>2,702,996</u>	<u>723,723</u>
Total net assets	<u><b>\$ 20,106,274</b></u>	<u><b>\$ 11,507,614</b></u>	<u><b>\$ 31,613,888</b></u>	<u><b>\$ 723,723</b></u>

# City of Charlotte, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 650,757	\$ 225,066	\$ -	\$ -
Public safety	2,612,572	155,155	25,834	-
Public works	1,811,206	362,519	10,627	135,989
Community and economic development	169,232	-	-	67,015
Recreation and culture	185,789	-	-	-
Interest on long-term debt	57,357	-	-	-
Total governmental activities	5,486,913	742,740	36,461	203,004
Business-type activities:				
Water and sewer	2,710,905	2,858,180	-	122,454
Recycling	49,590	15,645	25,058	-
Total business-type activities	2,760,495	2,873,825	25,058	122,454
Total primary government	<u>\$ 8,247,408</u>	<u>\$ 3,616,565</u>	<u>\$ 61,519</u>	<u>\$ 325,458</u>
Component units:				
Downtown Development Authority	\$ 25,357	\$ -	\$ -	\$ -
Local Development Financing Authority	27,921	-	-	-
Total component units	<u>\$ 53,278</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Changes in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (425,691)	\$ -	\$ (425,691)	\$ -
(2,431,583)	-	(2,431,583)	-
(1,302,071)	-	(1,302,071)	-
(102,217)	-	(102,217)	-
(185,789)	-	(185,789)	-
(57,357)	-	(57,357)	-
(4,504,708)	-	(4,504,708)	-
-	269,729	269,729	-
-	(8,887)	(8,887)	-
-	260,842	260,842	-
(4,504,708)	260,842	(4,243,866)	-
-	-	-	(25,357)
-	-	-	(27,921)
-	-	-	(53,278)
2,712,501	-	2,712,501	205,085
1,096,527	8,551	1,105,078	-
113,513	77,501	191,014	30,911
56,164	22,935	79,099	2,205
22,270	(22,270)	-	-
4,000,975	86,717	4,087,692	238,201
(503,733)	347,559	(156,174)	184,923
20,610,007	11,160,055	31,770,062	538,800
<b>\$ 20,106,274</b>	<b>\$ 11,507,614</b>	<b>\$ 31,613,888</b>	<b>\$ 723,723</b>

# City of Charlotte, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 1,295,002	\$ 1,352,492	\$ 2,647,494
Receivables - Net (Note 4)	507,723	167,785	675,508
Prepaid costs and other assets	163,656	4,465	168,121
Restricted assets - Cash and investments (Notes 3 and 8)	-	2,360	2,360
Total assets	<u>\$ 1,966,381</u>	<u>\$ 1,527,102</u>	<u>\$ 3,493,483</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 135,139	\$ 8,999	\$ 144,138
Accrued and other liabilities	103,639	7,366	111,005
Deferred revenue (Note 4)	245,702	67,574	313,276
Total liabilities	484,480	83,939	568,419
<b>Fund Balances</b>			
Reserved for:			
Debt service	-	2,360	2,360
Law enforcement	-	18,611	18,611
Prepaid assets and other assets	163,656	-	163,656
Unreserved, reported in:			
General Fund:			
Designated for:			
Building maintenance	51,122	-	51,122
Retiree health benefits	200,000	-	200,000
Compensated absences	50,000	-	50,000
Major equipment purchases	30,000	-	30,000
Undesignated	987,123	-	987,123
Special Revenue Funds	-	1,422,192	1,422,192
Total fund balances	<u>1,481,901</u>	<u>1,443,163</u>	<u>2,925,064</u>
Total liabilities and fund balances	<u>\$ 1,966,381</u>	<u>\$ 1,527,102</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	17,726,567
Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	313,276
Accrued interest is not due and payable in the current period and is not reported in the funds	(6,387)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,649,832)
Internal Service Funds are included as part of governmental activities	797,586
Net assets of governmental activities	<u>\$ 20,106,274</u>

# City of Charlotte, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 2,742,872	\$ -	\$ 2,742,872
Special assessments	-	22,793	22,793
Licenses and permits	55,985	-	55,985
State and local sources	1,198,841	571,811	1,770,652
Charges for services	210,051	-	210,051
Fines and forfeitures	29,207	-	29,207
Other	116,920	78,168	195,088
	<hr/>	<hr/>	<hr/>
Total revenue	4,353,876	672,772	5,026,648
<b>Expenditures</b>			
Current:			
General government	595,040	-	595,040
Public safety	2,486,594	9,417	2,496,011
Public works	632,981	412,139	1,045,120
Recreation and culture	154,971	-	154,971
Community and economic development	101,492	42,223	143,715
Capital outlay	212,746	-	212,746
Debt service:			
Principal retirement	-	80,000	80,000
Interest and fiscal charges	-	58,885	58,885
	<hr/>	<hr/>	<hr/>
Total expenditures	4,183,824	602,664	4,786,488
	<hr/>	<hr/>	<hr/>
<b>Excess of Revenue Over Expenditures</b>	170,052	70,108	240,160
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	339,686	339,686
Transfers out	(155,416)	(162,000)	(317,416)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(155,416)	177,686	22,270
	<hr/>	<hr/>	<hr/>
<b>Net Changes in Fund Balances</b>	14,636	247,794	262,430
<b>Fund Balances - Beginning of year</b>	1,467,265	1,195,369	2,662,634
	<hr/>	<hr/>	<hr/>
<b>Fund Balances - End of year</b>	<u><u>\$ 1,481,901</u></u>	<u><u>\$ 1,443,163</u></u>	<u><u>\$ 2,925,064</u></u>

The Notes to Financial Statements are an  
Integral Part of this Statement.



# City of Charlotte, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>262,430</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	192,608
Depreciation on general capital assets is recorded in the statement of activities; it is not recorded at the fund level	(1,050,207)
Capital contributions are recorded in the statement of activities; they are not recorded at the fund level	113,196
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(30,371)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(92,620)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	125,898
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end	1,528
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	18,251
Internal Service Funds are also included as governmental activities	(44,446)

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>(503,733)</u></b>
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# City of Charlotte, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2006

	Major Fund	Nonmajor Fund		Governmental Activities
	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and investments (Note 3)	\$ 595,566	\$ 17,660	\$ 613,226	\$ 80,886
Receivables - Net (Note 4)	520,474	134	520,608	681
Inventories	56,657	-	56,657	-
Prepays and other assets	163,798	2,764	166,562	11,164
Total current assets	1,336,495	20,558	1,357,053	92,731
Noncurrent assets:				
Restricted assets - Cash and investments (Notes 3 and 8)	840,427	-	840,427	-
Net capital assets	17,324,013	-	17,324,013	721,069
Total assets	<u>\$ 19,500,935</u>	<u>\$ 20,558</u>	<u>\$ 19,521,493</u>	<u>\$ 813,800</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 17,231	\$ 300	\$ 17,531	\$ 14,024
Accrued liabilities	205,964	935	206,899	2,190
Current portion of long-term debt (Note 7)	465,000	-	465,000	-
Total current liabilities	688,195	1,235	689,430	16,214
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	7,324,449	-	7,324,449	-
Total liabilities	8,012,644	1,235	8,013,879	16,214
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	9,534,564	-	9,534,564	721,069
Restricted for debt service	840,427	-	840,427	-
Unrestricted	1,113,300	19,323	1,132,623	76,517
Total net assets	11,488,291	19,323	11,507,614	797,586
Total liabilities and net assets	<u>\$ 19,500,935</u>	<u>\$ 20,558</u>	<u>\$ 19,521,493</u>	<u>\$ 813,800</u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Business-type Activities			
	Major Fund	Nonmajor Fund		Governmental Activities
	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Fund
<b>Operating Revenue</b>				
Water sales	\$ 930,983	\$ -	\$ 930,983	\$ -
Sewage charges	1,860,641	-	1,860,641	-
Tap fees	66,556	-	66,556	-
Recycling fees	-	15,645	15,645	-
Charges for services	-	-	-	317,344
Other	30,697	25,847	56,544	-
Total operating revenue	2,888,877	41,492	2,930,369	317,344
<b>Operating Expenses</b>				
Cost of services	1,764,385	-	1,764,385	260,674
Recycling	-	49,590	49,590	-
Depreciation	600,098	-	600,098	115,122
Total operating expenses	2,364,483	49,590	2,414,073	375,796
<b>Operating Income (Loss)</b>	524,394	(8,098)	516,296	(58,452)
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	76,571	930	77,501	5,106
Interest expense	(346,422)	-	(346,422)	-
Gain on disposal of assets	-	-	-	8,900
Total nonoperating revenue (expenses)	(269,851)	930	(268,921)	14,006
<b>Income (Loss) - Before contributions and transfers</b>	254,543	(7,168)	247,375	(44,446)
<b>Capital Contributions</b>	122,454	-	122,454	-
<b>Transfers to Other Funds</b>	(22,270)	-	(22,270)	-
<b>Changes in Net Assets</b>	354,727	(7,168)	347,559	(44,446)
<b>Net Assets - Beginning of year</b>	11,133,564	26,491	11,160,055	842,032
<b>Net Assets - End of year</b>	<u>\$ 11,488,291</u>	<u>\$ 19,323</u>	<u>\$ 11,507,614</u>	<u>\$ 797,586</u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Business-type Activities			Govern- mental Activities
	Major Fund	Nonmajor Fund		
	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,914,171	\$ 41,488	\$ 2,955,659	\$ 317,651
Payments to suppliers	(983,142)	(21,232)	(1,004,374)	(151,290)
Payments to employees	(867,960)	(28,197)	(896,157)	(98,810)
Net cash provided by (used in) operating activities	1,063,069	(7,941)	1,055,128	67,551
<b>Cash Flows from Noncapital Financing Activities - Transfers</b>				
to/from other funds	(22,270)	-	(22,270)	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from sales of capital assets	-	-	-	8,900
Purchase of capital assets	(25,720)	-	(25,720)	(182,206)
Principal and interest paid on capital debt	(762,075)	-	(762,075)	-
Net cash used in capital and related financing activities	(787,795)	-	(787,795)	(173,306)
<b>Cash Flows from Investing Activities - Interest received on</b>				
investments	76,571	930	77,501	5,106
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	329,575	(7,011)	322,564	(100,649)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,106,418	24,671	1,131,089	181,535
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,435,993</b>	<b>\$ 17,660</b>	<b>\$ 1,453,653</b>	<b>\$ 80,886</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 595,566	\$ 17,660	\$ 613,226	\$ 80,886
Restricted assets - Cash and cash equivalents	840,427	-	840,427	-
Total cash and cash equivalents	<b>\$ 1,435,993</b>	<b>\$ 17,660</b>	<b>\$ 1,453,653</b>	<b>\$ 80,886</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from</b>				
<b>Operating Activities</b>				
Operating income (loss)	\$ 524,394	\$ (8,098)	\$ 516,296	\$ (58,452)
Adjustments to reconcile operating income (loss) to				
net cash from operating activities:				
Depreciation	600,098	-	600,098	115,122
Changes in assets and liabilities:				
Receivables	25,294	(4)	25,290	307
Other assets	(71,257)	668	(70,589)	520
Accounts payable	(3,601)	(96)	(3,697)	9,763
Accrued and other liabilities	(11,859)	(411)	(12,270)	291
Net cash provided by (used in) operating activities	<b>\$ 1,063,069</b>	<b>\$ (7,941)</b>	<b>\$ 1,055,128</b>	<b>\$ 67,551</b>

There were no significant noncash financing and investing activities for the year ended June 30, 2006.

# City of Charlotte, Michigan

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## **Fiduciary Funds Statement of Assets and Liabilities June 30, 2006**

	Agency Fund
	<hr/>
<b>Assets</b> - Cash and cash equivalents	<b>\$ 5,160</b>
	<hr/>
<b>Liabilities</b> - Accrued and other liabilities	<b>\$ 5,160</b>
	<hr/>

# City of Charlotte, Michigan

## Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Local Development Financing Authority	Total
<b>Assets</b>			
Cash and investments	\$ 35,920	\$ 688,027	\$ 723,947
Accounts receivable	210	-	210
Accrued interest receivable	280	5,367	5,647
Total assets	36,410	693,394	729,804
<b>Liabilities</b> - Accounts payable	1,216	4,865	6,081
<b>Net Assets</b> - Unrestricted	<u>\$ 35,194</u>	<u>\$ 688,529</u>	<u>\$ 723,723</u>

# City of Charlotte, Michigan

## Component Units Statement of Activities Year Ended June 30, 2006

	Net (Expense) Revenue and Changes in Net Assets			
		Local		
		Downtown Development Authority	Development Financing Authority	Total
	Expenses			
Downtown Development Authority	\$ 25,357	\$ (25,357)	\$ -	\$ (25,357)
Local Development Financing Authority	<u>27,921</u>	<u>-</u>	<u>(27,921)</u>	<u>(27,921)</u>
Total governmental activities	<u><b>\$ 53,278</b></u>	(25,357)	(27,921)	(53,278)
<b>General Revenues</b>				
Property taxes		44,170	160,915	205,085
Interest		937	29,974	30,911
Miscellaneous		<u>2,205</u>	<u>-</u>	<u>2,205</u>
Total general revenues		<u>47,312</u>	<u>190,889</u>	<u>238,201</u>
<b>Change in Net Assets</b>		21,955	162,968	184,923
<b>Net Assets</b> - Beginning of year		<u>13,239</u>	<u>525,561</u>	<u>538,800</u>
<b>Net Assets</b> - End of year		<u><b>\$ 35,194</b></u>	<u><b>\$ 688,529</b></u>	<u><b>\$ 723,723</b></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Charlotte, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Charlotte, Michigan:

#### **Reporting Entity**

The City of Charlotte, Michigan is governed by an elected seven-member council and administered by an appointed City manager. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets.

The Downtown Development Authority was established pursuant to P.A. 197 of 1975 for the purpose of revitalizing the downtown business district. The Authority's governing body, which consists of nine individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund-type accounting. Financial statements for the Downtown Development Authority are available at the City.

The Local Development Financing Authority was established pursuant to P.A. 281 of 1986 for the purpose of developing and marketing an industrial park. The Authority's governing body, which consists of eight individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund-type accounting. Financial statements for the Local Development Financing Authority are available at the City.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$196,457,200 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 13.417 mills and resulted in \$2,742,872 for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

**Water Supply and Sewage Disposal Fund** - This fund is used to account for the operation of the City's water distribution, water treatment, sewage disposal, and sewage treatment systems; the construction and acquisition of additions and improvements to those systems; and contributions toward the payment of interest and principal on general obligation bonds issued to help finance the construction projects undertaken by this fund.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note I - Summary of Significant Accounting Policies (Continued)**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Supply and Sewage Disposal Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and the Water and Sewer Funds is generally allocated to each fund by a percentage of total investment value attributable to each fund.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as a net of allowance for uncollectible amounts.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Charlotte, Michigan's water and sewer lines.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 to 50 years
Water and sewer buildings and systems	10 to 100 years
Buildings and building improvements	25 to 50 years
Vehicles	3 years
Equipment	5 to 10 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for nonvested accumulated sick leave. All vacation pay and vested sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data is not included in the City's financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information; a comparison of budget to actual revenue and expenditures for all other governmental funds is reported as other supplemental information.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to two types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,053,053 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$536,772, of which \$88,265 was covered by federal depository insurance and \$448,507 was uninsured and uncollateralized.

#### **Credit Risk**

As of year end, the City had \$1,042,775 invested in bank investment pools with a rating of Aaa by Standard and Poor's. The City's investment policy does not limit credit risk beyond that imposed by state law.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water and Sewer Fund	Nonmajor Funds	Total
Receivables:				
Intergovernmental	\$ 330,051	\$ -	\$ 83,966	\$ 414,017
Special assessments	-	-	67,574	67,574
Accounts	168,006	514,311	5,767	688,084
Interest and other	<u>9,666</u>	<u>6,163</u>	<u>11,293</u>	<u>27,122</u>
Net receivables	<u>\$ 507,723</u>	<u>\$ 520,474</u>	<u>\$ 168,600</u>	<u>\$ 1,196,797</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of special assessments, state-shared revenue, and grants that are unavailable in the amount of \$67,574, \$173,160, and \$72,542, respectively.



# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,860,936	\$ -	\$ -	\$ 1,860,936
Construction in progress	34,838	34,106	-	68,944
Subtotal	1,895,774	34,106	-	1,929,880
Capital assets being depreciated:				
Infrastructure	22,125,160	181,259	-	22,306,419
Buildings and improvements	2,680,191	23,609	-	2,703,800
Vehicles	1,958,176	182,207	42,726	2,097,657
Equipment	2,657,621	66,830	19,271	2,705,180
Subtotal	29,421,148	453,905	61,997	29,813,056
Accumulated depreciation:				
Infrastructure	7,901,211	837,636	-	8,738,847
Buildings and improvements	1,267,719	54,964	-	1,322,683
Vehicles	1,304,192	115,122	42,726	1,376,588
Equipment	1,718,846	157,607	19,271	1,857,182
Subtotal	12,191,968	1,165,329	61,997	13,295,300
Net capital assets being depreciated	17,229,180	(711,424)	-	16,517,756
Net capital assets	<u>\$ 19,124,954</u>	<u>\$ (677,318)</u>	<u>\$ -</u>	<u>\$ 18,447,636</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Land	\$ 104,995	\$ -	\$ -	\$ 104,995
Capital assets being depreciated -				
Buildings and systems	25,980,286	148,174	68,889	26,059,571
Accumulated depreciation -				
Buildings and systems	8,309,344	600,098	68,889	8,840,553
Net capital assets being depreciated	17,670,942	(451,924)	-	17,219,018
Net capital assets	<u>\$ 17,775,937</u>	<u>\$ (451,924)</u>	<u>\$ -</u>	<u>\$ 17,324,013</u>

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 60,840
Public safety	100,539
Public works	803,427
Community and economic development	2,588
Recreation and culture	82,813
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>115,122</u>

Total governmental activities	<u>\$ 1,165,329</u>
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Business-type activities:

Water	\$ 123,126
Sewer	<u>476,972</u>

Total business-type activities	<u>\$ 600,098</u>
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**Construction Commitments** - The City has no significant construction projects at year end.

### Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Nonmajor Special Revenue Fund	\$ 27,400
General Fund	Nonmajor Special Revenue Fund	77,800
General Fund	Nonmajor Special Revenue Fund	5,000
General Fund	Nonmajor Debt Service Fund	45,216
Nonmajor Special Revenue Fund	Nonmajor Special Revenue Fund	90,000
Nonmajor Special Revenue Fund	Nonmajor Debt Service Fund	43,200
Nonmajor Special Revenue Fund	Nonmajor Debt Service Fund	28,800
Water Supply and Sewage Disposal Fund	Nonmajor Debt Service Fund	<u>22,270</u>
Total		<u>\$ 339,686</u>

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Transfers (Continued)

The transfers from the General Fund to the Major and Local Street Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the Major Streets and Local Streets Funds to the Debt Service Fund represents the movement of resources to be used to service Major Streets and Local Streets Fund debt, respectively; the transfer from the Water and Sewer Fund to the Debt Service Fund represents the movement of resources to be used to service the Building Authority debt.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. A county contractual agreement is also a general obligation of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Building Authority Bonds - Series 2001	4.1% -						
(Limited Tax General Obligation) Bonds	5.1%	2016	\$ 585,000	\$ -	\$ 40,000	\$ 545,000	\$ 45,000
Michigan Transportation Fund Bonds -							
Series 2001 (Limited Tax General	4.4% -						
Obligation) Bonds	5.3%	2017	665,000	-	40,000	625,000	45,000
Economic Development Agreement	-	2017	229,102	-	45,898	183,204	17,874
Compensated absences			314,879	-	18,251	296,628	-
Total governmental activities			<u>\$ 1,793,981</u>	<u>\$ -</u>	<u>\$ 144,149</u>	<u>\$ 1,649,832</u>	<u>\$ 107,874</u>
<b>Business-type Activities</b>							
County Bond Obligations - County of Eaton							
1996 Water and Sewer Bonds	4.375% -						
	5.3%	2011	\$ 1,165,000	\$ -	\$ 175,000	\$ 990,000	\$ 185,000
Revenue bonds:							
1999 Revenue Bonds - Water Supply							
and Sewage Disposal System	5.2%	2009	7,077,033	-	6,317,033	760,000	240,000
2005 Revenue Refunding Bonds - Water							
Supply and Sewage Disposal System -	3.0% -						
Net of loss on refunding of \$490,551	4.25%	2024	-	6,570,000	530,551	6,039,449	40,000
Total business-type activities			<u>\$ 8,242,033</u>	<u>\$ 6,570,000</u>	<u>\$ 7,022,584</u>	<u>\$ 7,789,449</u>	<u>\$ 465,000</u>

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 107,874	\$ 55,405	\$ 163,279	\$ 465,000	\$ 340,842	\$ 805,842
2008	107,874	51,513	159,387	490,000	319,068	809,068
2009	112,874	47,530	160,404	510,000	296,078	806,078
2010	117,874	43,120	160,994	530,000	272,198	802,198
2011	122,874	38,375	161,249	540,000	251,856	791,856
2012-2016	704,370	108,480	812,850	1,880,000	1,023,400	2,903,400
2017-2021	79,464	1,987	81,451	2,270,000	622,024	2,892,024
2022-2024	-	-	-	1,595,000	136,978	1,731,978
Total	1,353,204	346,410	1,699,614	8,280,000	3,262,444	11,542,444
Less unamortized loss on refunding	-	-	-	(490,551)	-	(490,551)
Total bonds payable	<u>\$ 1,353,204</u>	<u>\$ 346,410</u>	<u>\$ 1,699,614</u>	<u>\$ 7,789,449</u>	<u>\$ 3,262,444</u>	<u>\$ 11,051,893</u>

**Advance and Current Refundings** - During the year, the City issued \$6,570,000 in revenue refunding bonds with an average interest rate of 3.0 percent to 4.25 percent. The proceeds of these bonds were used to advance refund \$6,180,000 of outstanding 1999 Water Supply and Sewage Disposal System revenue bonds with an average interest rate of 5.2 percent. The net proceeds of \$6,453,547 (after payment of \$141,629 in underwriting fees, insurance, and other issuance costs) plus an additional \$84,551 of Reserve and Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Water Supply and Sewage Disposal System Fund statement of net assets. The advance refunding reduced total debt service payments over the next 18 years by approximately \$603,000, which represents an economic gain of approximately \$368,000.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities
Operation and Maintenance Fund	\$ -	\$ 210,989
Bond and Interest Redemption Fund	2,360	48,128
Bond Reserve Account	-	581,310
Total restricted assets	<u>\$ 2,360</u>	<u>\$ 840,427</u>

**Operation and Maintenance Fund** - The Water Supply and Sewage Disposal System is required to maintain cash sufficient to provide for operation and maintenance of the system.

**Bond and Interest Redemption Fund** - This fund represents cash to be used for the current principal and interest due in the Water Supply and Sewage Disposal System.

**Bond Reserve Account** - The Water Supply and Sewage Disposal System is required to maintain cash to be used solely for the payment of principal and interest when there would otherwise be default.

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and error and omissions, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 10 - Defined Benefit Pension Plan

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 0.0 percent to 7.73 percent of gross wages for the various groups.

**Annual Pension Cost** - For the year ended June 30, 2006, the City's annual pension cost of \$266,369 for the plan was equal to the City's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement, for persons selecting certain benefit options. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2006

### Note 10 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2004	2005	2006
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 190,053	\$ 209,689	\$ 266,369
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 9,863,004	\$ 10,293,032	\$ 10,699,124
Actuarial accrued liability - Entry age	11,821,490	12,698,375	13,679,913
Unfunded AAL (UAAL)	1,958,486	2,405,343	2,980,789
Funded ratio	83%	81%	78%
Covered payroll	2,422,496	2,534,233	2,474,754
UAAL as a percentage of covered payroll	81%	95%	120%

### Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for the construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - June 30, 2005	\$ (485,094)
Current year building permit revenue	44,295
Related expenses	<u>(162,364)</u>
Cumulative shortfall - June 30, 2006	<u><u>\$ (603,163)</u></u>

### **Note 12 - Other Postemployment Benefits**

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 11 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2006, the City made payments for postemployment health benefits of \$117,296. The government obtains health care coverage through private insurers.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

### **Note 13 - Lincoln Park**

The City purchased a parcel of property that was previously classified as a contaminated site by the State of Michigan. The Michigan Department of Environmental Quality (MDEQ) incurred approximately \$1.2 million in clean-up costs. The State was pursuing reimbursement from the property's previous owners who were responsible for the contamination; however, the State has since determined that the previous property owner is not liable. Given these circumstances, a liability has not been recorded in the financial statements.

### **Note 14 - Embassy Apartments**

The City has entered into an agreement to construct a residential apartment complex for the promotion of economic growth and development within the City. The agreement includes the sale of 10 acres of property to the City and a special assessment levy not to exceed \$629,600, plus the costs incurred by the City in issuing a bond in anticipation of the collection of the special assessment. If construction does not commence by December 31, 2007, the agreement will be terminated.



## **Required Supplemental Information**

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# City of Charlotte, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget (Activity Level)	Amended Budget (Activity Level)	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,467,265	\$ 1,467,265	\$ 1,467,265	\$ -
<b>Resources (Inflows)</b>				
Property taxes	2,605,950	2,605,950	2,742,872	136,922
Licenses and permits	69,650	69,650	55,985	(13,665)
Intergovernmental	1,037,700	1,106,715	1,198,841	92,126
Charges for services	217,300	217,300	210,051	(7,249)
Fines and forfeitures	28,250	28,250	29,207	957
Other	126,500	126,500	116,920	(9,580)
Total resources (inflows)	4,085,350	4,154,365	4,353,876	199,511
<b>Charges to Appropriations (Outflows)</b>				
General government	686,938	686,938	600,406	(86,532)
Public safety	2,597,767	2,599,767	2,603,580	3,813
Public works	753,466	753,466	651,672	(101,794)
Recreation and culture	207,352	207,352	158,919	(48,433)
Community and economic development	110,799	177,814	169,247	(8,567)
Transfers to other funds	194,316	194,316	155,416	(38,900)
Total charges to appropriations (outflows)	4,550,638	4,619,653	4,339,240	(280,413)
<b>Fund Balance - End of year</b>	<b>\$ 1,001,977</b>	<b>\$ 1,001,977</b>	<b>\$ 1,481,901</b>	<b>\$ 479,924</b>

## **Other Supplemental Information**

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## **Nonmajor Governmental Funds**

**Major Street Fund** - This fund is used to control the expenditure of motor fuel taxes and trunkline maintenance funds, which are earmarked by law and the state constitution for major street and highway purposes.

**Local Street Fund** - This fund is used to control the expenditure of motor fuel taxes, which are earmarked by law and the state constitution for local street and highway purposes.

**Industrial Park Fund** - This fund is used to control the expenditure of monies earmarked for the City's industrial park.

**Police Training Fund** - This fund is used to control the expenditure of state grant monies, which are earmarked for the continued training of police officers.

**Drug Enforcement Fund** - This fund is used to control the expenditures of monies earmarked for the local D.A.R.E. program.

**Building Authority Bond Fund** - This fund is used for payment of the 2001 Building Authority Bonds issued to cover \$375,000 of construction costs of a new DPW facility and renovations to the existing structure.

**Michigan Transportation Bond Fund** - This fund is used for payment of the 2001 Michigan Transportation Bonds issued to cover \$775,000 of construction costs and street resurfacing.

# City of Charlotte, Michigan

	Special Revenue Funds				
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement
<b>Assets</b>					
Cash and investments	\$ 813,383	\$ 334,854	\$ 185,708	\$ 10,309	\$ 8,238
Receivables - Net	20,244	62,049	1,462	-	64
Prepaid costs and other assets	1,990	2,166	309	-	-
Due from other governmental units	59,859	24,107	-	-	-
Restricted assets - Cash and investments	-	-	-	-	-
Total assets	<u>\$ 895,476</u>	<u>\$ 423,176</u>	<u>\$ 187,479</u>	<u>\$ 10,309</u>	<u>\$ 8,302</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 7,684	\$ 14	\$ 1,301	\$ -	\$ -
Accrued and other liabilities	3,032	3,074	1,260	-	-
Deferred revenue	13,850	53,724	-	-	-
Total liabilities	24,566	56,812	2,561	-	-
<b>Fund Balances</b>					
Reserved:					
Debt service	-	-	-	-	-
Law enforcement	-	-	-	10,309	8,302
Unreserved - Special revenue	870,910	366,364	184,918	-	-
Total fund balances	870,910	366,364	184,918	10,309	8,302
Total liabilities and fund balances	<u>\$ 895,476</u>	<u>\$ 423,176</u>	<u>\$ 187,479</u>	<u>\$ 10,309</u>	<u>\$ 8,302</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

Debt Service Funds

Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,352,492
-	-	83,819
-	-	4,465
-	-	83,966
<u>2,277</u>	<u>83</u>	<u>2,360</u>
<b><u>\$ 2,277</u></b>	<b><u>\$ 83</u></b>	<b><u>\$ 1,527,102</u></b>
\$ -	\$ -	\$ 8,999
-	-	7,366
-	-	67,574
-	-	83,939
2,277	83	2,360
-	-	18,611
-	-	1,422,192
<u>2,277</u>	<u>83</u>	<u>1,443,163</u>
<b><u>\$ 2,277</u></b>	<b><u>\$ 83</u></b>	<b><u>\$ 1,527,102</u></b>

# City of Charlotte, Michigan

	Nonmajor Special Revenue Funds				
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement
<b>Revenue</b>					
State sources	\$ 421,477	\$ 145,998	\$ -	\$ 4,336	\$ -
Special assessments	4,720	18,073	-	-	-
Other	39,963	26,619	9,307	-	2,279
Total revenue	466,160	190,690	9,307	4,336	2,279
<b>Expenditures</b>					
Current:					
Public safety department	-	-	-	4,186	5,231
Public works department	194,305	217,834	-	-	-
Community and economic development	-	-	41,673	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	194,305	217,834	41,673	4,186	5,231
<b>Excess of Revenue Over (Under) Expenditures</b>	271,855	(27,144)	(32,366)	150	(2,952)
<b>Other Financing Sources (Uses)</b>					
Transfers in	27,400	167,800	-	5,000	-
Transfers out	(133,200)	(28,800)	-	-	-
Total other financing sources (uses)	(105,800)	139,000	-	5,000	-
<b>Net Changes in Fund Balances</b>	166,055	111,856	(32,366)	5,150	(2,952)
<b>Fund Balances - Beginning of year</b>	704,855	254,508	217,284	5,159	11,254
<b>Fund Balances - End of year</b>	<b>\$ 870,910</b>	<b>\$ 366,364</b>	<b>\$ 184,918</b>	<b>\$ 10,309</b>	<b>\$ 8,302</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2006**

Nonmajor Debt Service Funds

Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 571,811
-	-	22,793
-	-	78,168
-	-	672,772
-	-	9,417
-	-	412,139
275	275	42,223
40,000	40,000	80,000
27,185	31,700	58,885
67,460	71,975	602,664
(67,460)	(71,975)	70,108
67,486	72,000	339,686
-	-	(162,000)
67,486	72,000	177,686
26	25	247,794
2,251	58	1,195,369
<b>\$ 2,277</b>	<b>\$ 83</b>	<b>\$ 1,443,163</b>



# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 704,855	\$ 704,855	\$ 704,855	\$ -
<b>Resources (Inflows)</b>				
State sources	417,000	417,000	421,477	4,477
Special assessments	8,800	8,800	4,720	(4,080)
Other	10,000	10,000	39,963	29,963
Transfer from other funds	<u>27,400</u>	<u>27,400</u>	<u>27,400</u>	<u>-</u>
Total resources (inflows)	463,200	463,200	493,560	30,360
<b>Charges to Appropriations (Outflows) -</b>				
Public works				
Street maintenance	417,844	417,844	194,305	(223,539)
Transfers to other funds	<u>138,200</u>	<u>138,200</u>	<u>133,200</u>	<u>(5,000)</u>
Total charges to appropriations (outflows)	<u>556,044</u>	<u>556,044</u>	<u>327,505</u>	<u>(228,539)</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 612,011</u></u>	<u><u>\$ 612,011</u></u>	<u><u>\$ 870,910</u></u>	<u><u>\$ 258,899</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 254,508	\$ 254,508	\$ 254,508	\$ -
<b>Resources (Inflows)</b>				
State sources	155,000	155,000	145,998	(9,002)
Special assessments	21,000	21,000	18,073	(2,927)
Other	6,700	6,700	26,619	19,919
Transfer from other funds	<u>211,700</u>	<u>211,700</u>	<u>167,800</u>	<u>(43,900)</u>
Total resources (inflows)	394,400	394,400	358,490	(35,910)
<b>Charges to Appropriations (Outflows) -</b>				
Public works				
Street maintenance	384,053	384,053	217,834	(166,219)
Transfers to other funds	<u>28,800</u>	<u>28,800</u>	<u>28,800</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>412,853</u>	<u>412,853</u>	<u>246,634</u>	<u>(166,219)</u>
<b>Fund Balance - End of year</b>	<b><u>\$ 236,055</u></b>	<b><u>\$ 236,055</u></b>	<b><u>\$ 366,364</u></b>	<b><u>\$ 130,309</u></b>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Industrial Park Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 217,284	\$ 217,284	\$ 217,284	\$ -
<b>Resources (Inflows)</b> - Other	2,000	2,000	9,307	7,307
<b>Charges to Appropriations (Outflows)</b> - General government - Community and economic development	<u>55,286</u>	<u>55,286</u>	<u>41,673</u>	<u>(13,613)</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 163,998</u></u>	<u><u>\$ 163,998</u></u>	<u><u>\$ 184,918</u></u>	<u><u>\$ 20,920</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Police Training Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 5,159	\$ 5,159	\$ 5,159	\$ -
<b>Resources (Inflows)</b>				
State sources	4,000	4,000	4,336	336
Transfer from other funds	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total resources (inflows)	9,000	9,000	9,336	336
<b>Charges to Appropriations (Outflows) -</b>				
Public safety - Police	<u>9,000</u>	<u>9,000</u>	<u>4,186</u>	<u>(4,814)</u>
<b>Fund Balance</b> - End of year	<u>\$ 5,159</u>	<u>\$ 5,159</u>	<u>\$ 10,309</u>	<u>\$ 5,150</u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Drug Enforcement Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 11,254	\$ 11,254	\$ 11,254	\$ -
<b>Resources (Inflows)</b>				
Interest income	100	100	412	312
Other	<u>2,800</u>	<u>2,800</u>	<u>1,867</u>	<u>(933)</u>
Total resources (inflows)	2,900	2,900	2,279	(621)
<b>Charges to Appropriations (Outflows) -</b>				
Public safety - Police	<u>3,250</u>	<u>5,750</u>	<u>5,231</u>	<u>(519)</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 10,904</u></u>	<u><u>\$ 8,404</u></u>	<u><u>\$ 8,302</u></u>	<u><u>\$ (102)</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Building Authority Bond Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 2,251	\$ 2,251	\$ 2,251	\$ -
<b>Resources (Inflows)</b> - Transfer from other funds	67,486	67,486	67,486	-
<b>Charges to Appropriations (Outflows)</b> -				
Debt service				
Principal	40,000	40,000	40,000	-
Interest	27,186	27,186	27,185	(1)
Other	300	300	275	(25)
Total charges to appropriations (outflows)	67,486	67,486	67,460	(26)
<b>Fund Balance</b> - End of year	<u>\$ 2,251</u>	<u>\$ 2,251</u>	<u>\$ 2,277</u>	<u>\$ 26</u>

# City of Charlotte, Michigan

## Other Supplemental Information

### Budgetary Comparison Schedule - Michigan Transportation Bond Fund

### Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 58	\$ 58	\$ 58	\$ -
<b>Resources (Inflows)</b> - Transfer from other funds	72,000	72,000	72,000	-
<b>Charges to Appropriations (Outflows)</b> -				
Debt service				
Principal	40,000	40,000	40,000	-
Interest	31,700	31,700	31,700	-
Other	300	300	275	(25)
Total charges to appropriations (outflows)	72,000	72,000	71,975	(25)
<b>Fund Balance</b> - End of year	<u>\$ 58</u>	<u>\$ 58</u>	<u>\$ 83</u>	<u>\$ 25</u>

# City of Charlotte, Michigan

## Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Assets - Cash</b>	<b><u>\$ 6,392</u></b>	<b><u>\$ 10,604,200</u></b>	<b><u>\$ 10,605,432</u></b>	<b><u>\$ 5,160</u></b>
<b>Liabilities</b>				
Accrued and other liabilities	\$ 5,000	\$ 6,660	\$ 6,500	\$ 5,160
Due to other governmental units	<u>1,392</u>	<u>9,964,495</u>	<u>9,965,887</u>	<u>-</u>
Total liabilities	<b><u>\$ 6,392</u></b>	<b><u>\$ 9,971,155</u></b>	<b><u>\$ 9,972,387</u></b>	<b><u>\$ 5,160</u></b>



## **Statistical Section**

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## **Statistical Section**

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This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

# City of Charlotte, Michigan

## Net Assets by Component Last Three Fiscal Years

	2004	2005	2006
<b>Governmental Activities</b>			
Invested in capital assets - Net of related debt	\$ 18,452,965	\$ 17,874,974	\$ 17,277,656
Restricted	824,648	978,085	1,258,245
Unrestricted	<u>1,596,273</u>	<u>1,756,948</u>	<u>1,570,373</u>
Total net assets	<u><b>\$ 20,873,886</b></u>	<u><b>\$ 20,610,007</b></u>	<u><b>\$ 20,106,274</b></u>
<b>Business-type Activities</b>			
Invested in capital assets - Net of related debt	\$ 9,365,591	\$ 9,533,904	\$ 9,534,564
Restricted	918,355	865,171	840,427
Unrestricted	<u>697,316</u>	<u>760,980</u>	<u>1,132,623</u>
Total net assets	<u><b>\$ 10,981,262</b></u>	<u><b>\$ 11,160,055</b></u>	<u><b>\$ 11,507,614</b></u>
<b>Primary Government in Total</b>			
Invested in capital assets - Net of related debt	\$ 27,818,556	\$ 27,408,878	\$ 26,812,220
Restricted	1,743,003	1,843,256	2,098,672
Unrestricted	<u>2,293,589</u>	<u>2,517,928</u>	<u>2,702,996</u>
Total net assets	<u><b>\$ 31,855,148</b></u>	<u><b>\$ 31,770,062</b></u>	<u><b>\$ 31,613,888</b></u>

# City of Charlotte, Michigan

## Changes in Governmental Net Assets Last Three Fiscal Years

	2004	2005	2006
<b>Expenses</b>			
General government	\$ 592,841	\$ 609,254	\$ 650,757
Public safety	2,384,339	2,542,149	2,612,572
Public works	2,043,849	1,930,962	1,811,206
Community and economic development	182,540	275,397	169,232
Recreation and culture	224,200	54,924	185,789
Interest on long-term debt	64,845	62,873	57,357
Total governmental activities	5,492,614	5,475,559	5,486,913
<b>Program Revenues</b>			
Charges for services	834,475	688,869	742,740
Operating grants and contributions	11,906	68,890	36,461
Capital grants and contributions	385,150	562,252	203,004
Total program revenues	1,231,531	1,320,011	982,205
<b>Net Expenses</b>	(4,261,083)	(4,155,548)	(4,504,708)
<b>General Revenues</b>			
Property taxes	2,491,783	2,612,177	2,712,501
State-shared revenues	1,301,276	1,095,448	1,096,527
Investment earnings	30,308	41,934	113,513
Miscellaneous	47,825	119,310	56,164
Total general revenues	3,871,192	3,868,869	3,978,705
<b>Transfers</b>	23,448	22,800	22,270
<b>Change in Net Assets</b>	<u>\$ (366,443)</u>	<u>\$ (263,879)</u>	<u>\$ (503,733)</u>

# City of Charlotte, Michigan

## Changes in Business-type Net Assets Last Three Fiscal Years

	2004	2005	2006
<b>Operating Revenue</b>			
Water sales	\$ 871,133	\$ 898,846	\$ 930,983
Sewage charges	1,751,363	1,827,475	1,860,641
Tap fees	261,613	128,602	66,556
Recycling fees	14,011	14,855	15,645
Other	40,553	8,559	56,544
Total operating revenue	2,938,673	2,878,337	2,930,369
<b>Operating Expenses</b>			
Cost of services	1,739,638	1,734,836	1,764,385
Recycling	55,816	49,196	49,590
Depreciation	567,541	591,980	600,098
Total operating expenses	2,362,995	2,376,012	2,414,073
<b>Operating Income</b>	575,678	502,325	516,296
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	11,856	25,632	77,501
Interest expense	(482,854)	(462,249)	(346,422)
Total nonoperating expenses	(470,998)	(436,617)	(268,921)
<b>Income - Before contributions and other items</b>	104,680	65,708	247,375
<b>Capital Contributions</b>	441,300	135,885	122,454
<b>Transfers to Other Funds</b>	(23,448)	(22,800)	(22,270)
<b>Change in Net Assets</b>	<u>\$ 522,532</u>	<u>\$ 178,793</u>	<u>\$ 347,559</u>

## City of Charlotte, Michigan

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	As of June 30			
	1997	1998	1999	2000
General Fund:				
Reserved	\$ 2,344	\$ 2,344	\$ 2,344	\$ 28,649
Unreserved	<u>828,126</u>	<u>1,079,353</u>	<u>1,215,415</u>	<u>1,193,068</u>
Total General Fund	830,470	1,081,697	1,217,759	1,221,717
All other governmental funds:				
Reserved	25,479	5,581	5,721	5,004
Unreserved, reported in:				
Special Revenue Funds	583,625	796,515	1,019,344	592,792
Capital Project Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,350</u>
Total all other governmental funds	<u><b>\$ 609,104</b></u>	<u><b>\$ 802,096</b></u>	<u><b>\$ 1,025,065</b></u>	<u><b>\$ 782,146</b></u>

**Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

As of June 30					
2001	2002	2003	2004	2005	2006
\$ 27,277	\$ 27,098	\$ 141,700	\$ 191,642	\$ 150,598	\$ 163,656
<u>1,351,184</u>	<u>1,860,717</u>	<u>1,818,495</u>	<u>1,351,022</u>	<u>1,316,667</u>	<u>1,318,245</u>
1,378,461	1,887,815	1,960,195	1,542,664	1,467,265	1,481,901
-	2,205	6,204	9,894	18,722	20,971
739,130	977,365	941,315	989,534	1,176,647	1,422,192
<u>557,368</u>	<u>440,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>\$ 1,296,498</u></b>	<b><u>\$ 1,420,076</u></b>	<b><u>\$ 947,519</u></b>	<b><u>\$ 999,428</u></b>	<b><u>\$ 1,195,369</u></b>	<b><u>\$ 1,443,163</u></b>

# City of Charlotte, Michigan

	Year Ended June 30		
	1997	1998	1999
<b>Revenue</b>			
Property taxes	\$ 1,945,304	\$ 1,897,731	\$ 1,947,526
Special assessments	-	-	-
Licenses and permits	24,232	58,102	40,342
Intergovernmental	1,326,539	1,535,489	1,972,494
State and local sources	-	-	-
Federal grants	-	-	-
Charges for services	295,199	274,746	386,857
Fines and forfeitures	48,982	51,813	56,216
Other	136,106	181,262	313,923
<b>Total revenue</b>	<b>3,776,362</b>	<b>3,999,143</b>	<b>4,717,358</b>
<b>Expenditures</b>			
Current:			
General government	107,865	127,266	48,662
Public safety	1,618,522	1,777,820	1,928,725
Public works	1,227,473	979,094	1,450,330
Recreation and culture	236,810	258,315	111,776
Community and economic development	167,431	306,656	874,140
Capital outlay	-	-	-
Debt service principal	135,765	60,765	39,104
Debt service interest	10,106	4,859	9,470
<b>Total expenditures</b>	<b>3,503,972</b>	<b>3,514,775</b>	<b>4,462,207</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>272,390</b>	<b>484,368</b>	<b>255,151</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from long-term debt	-	50,000	-
Sale of fixed assets	-	2,011	204,675
Transfers in	543,000	403,700	672,451
Transfers out	(581,000)	(485,300)	(826,595)
<b>Total other financing sources (uses)</b>	<b>(38,000)</b>	<b>(29,589)</b>	<b>50,531</b>
<b>Extraordinary Item</b>	<b>-</b>	<b>-</b>	<b>(70,175)</b>
<b>Net Change in Fund Balances</b>	<b>234,390</b>	<b>454,779</b>	<b>235,507</b>
<b>Fund Balances - Beginning of year</b>	<b>1,205,184</b>	<b>1,439,574</b>	<b>2,098,406</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,439,574</b>	<b>\$ 1,894,353</b>	<b>\$ 2,333,913</b>
Debt service as a percentage of noncapital expenditures	4.16%	1.87%	1.09%

Note: Years 1997 - 2003 presented in pre-GASB 34 implementation format  
Fund balance - Beginning of year for 1999 reflects a restatement from prior year



## Changes in Fund Balances, Governmental Funds Last Ten Fiscal Years

Year Ended June 30						
2000	2001	2002	2003	2004	2005	2006
\$ 1,888,394	\$ 2,063,429	\$ 2,341,020	\$ 2,473,208	\$ 2,500,705	\$ 2,648,761	\$ 2,742,872
-	-	-	-	33,043	27,958	22,793
92,777	96,282	66,440	70,640	124,241	59,018	55,985
1,616,892	1,555,958	1,589,887	1,642,310	-	-	-
-	-	-	-	1,525,538	1,638,075	1,770,652
-	-	-	-	200,333	187,685	-
266,113	218,713	253,258	231,706	273,456	207,947	210,051
33,421	42,392	29,039	29,270	33,293	29,075	29,207
<u>215,428</u>	<u>207,958</u>	<u>205,655</u>	<u>812,942</u>	<u>256,123</u>	<u>229,674</u>	<u>195,088</u>
4,113,025	4,184,732	4,485,299	5,260,076	4,946,732	5,028,193	5,026,648
109,644	88,372	108,591	792,475	528,737	605,052	595,040
2,158,711	2,387,105	2,378,798	2,378,867	2,307,638	2,405,193	2,496,011
1,840,441	1,580,324	2,131,877	1,971,359	1,100,758	1,011,859	1,045,120
-	-	-	-	155,220	168,718	154,971
337,006	234,157	226,720	376,863	177,282	113,200	143,715
-	-	-	-	1,050,552	484,274	212,746
39,964	31,312	65,566	95,102	75,000	80,000	80,000
<u>6,620</u>	<u>4,410</u>	<u>35,592</u>	<u>68,429</u>	<u>65,235</u>	<u>62,155</u>	<u>58,885</u>
<u>4,492,386</u>	<u>4,325,680</u>	<u>4,947,144</u>	<u>5,683,095</u>	<u>5,460,422</u>	<u>4,930,451</u>	<u>4,786,488</u>
(379,361)	(140,948)	(461,845)	(423,019)	(513,690)	97,742	240,160
-	723,975	764,503	-	-	-	-
55,034	126,000	-	-	-	-	-
408,548	499,500	303,607	278,011	316,242	302,814	339,686
<u>(414,271)</u>	<u>(537,431)</u>	<u>(271,139)</u>	<u>(255,169)</u>	<u>(292,794)</u>	<u>(280,014)</u>	<u>(317,416)</u>
49,311	812,044	796,971	22,842	23,448	22,800	22,270
-	-	297,806	-	-	-	-
(330,050)	671,096	632,932	(400,177)	(490,242)	120,542	262,430
<u>2,333,913</u>	<u>2,003,863</u>	<u>2,674,959</u>	<u>3,307,891</u>	<u>3,032,334</u>	<u>2,542,092</u>	<u>2,662,634</u>
<b><u>\$ 2,003,863</u></b>	<b><u>\$ 2,674,959</u></b>	<b><u>\$ 3,307,891</u></b>	<b><u>\$ 2,907,714</u></b>	<b><u>\$ 2,542,092</u></b>	<b><u>\$ 2,662,634</u></b>	<b><u>\$ 2,925,064</u></b>
1.04%	0.83%	2.04%	2.88%	3.18%	3.20%	3.04%

## **Revenue Capacity**

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These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

# City of Charlotte, Michigan

## Taxable Value and Actual Value of Taxable Property Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Taxable Value by Property Type			Taxable Value by Property Type			Tax Rate (Mills)	Estimated Actual Value	Value as a Percentage of Actual
		Real Property			Personal Property	Total Value				
		Residential	Commercial	Industrial						
1996	1997	\$ 68,756,800	\$ 22,835,500	\$ 7,925,500	\$ 14,524,100	\$ 114,041,900	15.7590	\$ 234,838,200	48.56	
1997	1998	72,630,100	23,806,500	8,268,500	15,827,300	120,532,400	14.7870	265,819,800	45.34	
1998	1999	75,387,600	24,756,700	8,745,600	16,880,500	125,770,400	14.5270	271,790,400	46.27	
1999	2000	78,487,100	25,210,800	8,985,400	17,849,100	130,532,400	13.6270	289,232,600	45.13	
2000	2001	82,934,900	28,476,700	9,401,700	16,238,900	137,052,200	13.6354	311,911,800	43.94	
2001	2002	88,124,400	34,928,400	10,704,800	19,604,500	153,362,100	13.6423	347,415,400	44.14	
2002	2003	94,504,600	43,511,800	10,644,000	20,600,100	169,260,500	13.6462	388,903,800	43.52	
2003	2004	100,636,600	43,820,200	10,773,100	19,897,500	175,127,400	13.6481	432,925,600	40.45	
2004	2005	108,569,100	45,344,800	10,363,900	19,095,200	183,373,000	13.4170	464,476,200	39.48	
2005	2006	117,280,300	45,897,900	11,137,800	22,141,200	196,457,200	13.4170	527,849,200	37.22	

Note: Under Michigan law, the revenue base is referred to as "taxable value". This amount represents assessed value (50 percent of true cash value), limited for each property by the lower of 5 percent or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: Treasurer, City of Charlotte

	Millage Rates - Direct City Taxes	Overlapping Taxes						Total Tax Rate	
Tax Year	General Operating	County	State Education Tax	Intermediate School District	Charlotte Public Schools - Homestead	Charlotte Public Schools - Nonhomestead	District Library	Homestead	Non- homestead
1996	15.7590	7.5611	6.0000	4.1005	2.2000	20.2000	-	35.6206	53.6206
1997	14.7870	7.4921	6.0000	6.1977	2.5000	20.5000	-	36.9768	54.9768
1998	14.5270	7.4921	6.0000	6.1913	2.5000	20.5000	0.9000	37.6104	55.6104
1999	13.6270	7.4921	6.0000	4.0638	7.0000	25.0000	0.8982	39.0811	57.0811
2000	13.6354	7.4921	6.0000	4.0311	7.0000	25.0000	0.8916	39.0502	57.0502
2001	13.6423	7.3935	6.0000	3.9858	7.0000	25.0000	0.8847	38.9063	56.9063
2002	13.6462	7.4167	6.0000	3.9704	7.5504	25.5504	0.8808	39.4645	57.4645
2003	13.6481	7.3876	6.0000	3.9457	7.5900	25.5900	0.8789	39.4503	57.4503
2004	13.4170	7.8012	5.0000	3.7350	7.5900	25.5900	0.8758	38.4190	56.4190
2005	13.4170	7.7634	6.0000	3.8896	7.5900	25.5900	0.8758	39.5358	57.5358

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents at 14.2928 mills for general operations

# City of Charlotte, Michigan

## Principal Property Taxpayers June 30, 2006

Taxpayer		2005 Taxable Value	Percentage of Total	1996 Taxable Value	Percentage of Total	1996 Rank
1	Owens-Illinois Glass Container	\$ 7,270,600	3.70	\$ 5,757,500	4.90	1
2	Meijers Inc	5,678,700	2.89	-	-	-
3	T&WA of Lansing LLC	5,210,100	2.65	-	-	-
4	Wollin Products	4,927,000	2.51	-	-	-
5	Spartan Motors	3,612,600	1.84	3,884,100	3.31	2
6	Consumers Energy	3,319,600	1.69	3,267,000	2.78	3
7	Walmart	3,191,600	1.62	-	-	-
8	Linn Products	3,376,500	1.72	-	-	-
9	Legacy Parke Partners LLC	2,104,700	1.07	-	-	-
10	IIII Group LLC	1,430,700	0.73	591,000	0.50	10
	General Aluminum Products, Inc.	-	-	3,116,500	2.65	4
	Felpausch	-	-	1,795,800	1.53	5
	Butternut Apartments	-	-	845,000	0.72	6
	Charlotte Plaza Association	-	-	802,300	0.68	7
	Spartan Stores	-	-	691,200	0.59	8
	Super 8 Motel	-	-	648,300	0.55	9

# City of Charlotte, Michigan

## Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1996	1997	\$ 1,660,029	\$ 1,611,322	97.07	\$ 48,704	\$ 1,660,026	100.00
1997	1998	1,773,835	1,712,409	96.54	60,073	1,772,482	99.92
1998	1999	1,815,328	1,745,565	96.16	67,222	1,812,787	99.86
1999	2000	1,857,584	1,776,857	95.65	73,748	1,850,605	99.62
2000	2001	2,009,531	1,881,107	93.61	86,106	1,967,213	97.89
2001	2002	2,203,973	2,093,338	94.98	56,723	2,150,061	97.55
2002	2003	2,288,957	2,178,869	95.19	96,088	2,274,957	99.39
2003	2004	2,537,236	2,438,280	96.10	87,553	2,525,833	99.55
2004	2005	2,608,282	2,491,117	95.51	110,407	2,601,524	99.74
2005	2006	2,764,603	2,653,564	95.98	88,988	2,742,552	99.20

## **Debt Capacity**

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These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

# City of Charlotte, Michigan

	1997	1998	1999	2000
<b>Governmental Activities</b>				
General obligation bonds	\$ 50,000	\$ 90,000	\$ 70,000	\$ -
Loans payable	-	-	-	-
Land contract	-	77,065	70,853	53,045
Economic development agreement	-	-	-	-
Total	50,000	167,065	140,853	53,045
<b>Business-type Activities</b>				
General obligation bonds	105,000	2,130,000	2,015,000	1,895,000
Loans payable	-	-	211,879	128,477
Revenue bonds	-	-	-	8,032,675
Total	105,000	2,130,000	2,226,879	10,056,152
Total debt of the government	<b>\$ 155,000</b>	<b>\$ 2,297,065</b>	<b>\$ 2,367,732</b>	<b>\$ 10,109,197</b>
Total residential personal income	\$ 2,332,014	\$ 2,452,066	\$ 2,538,707	\$ 2,668,226
Ratio of total debt to personal income	1,504.53%	106.75%	107.22%	26.39%
Total population*	8,083	8,083	8,083	8,389
Total debt per capita	\$ 19	\$ 284	\$ 293	\$ 1,205

Note: 1997-1999 population based on 1990 census figures; 2000-2006 population based on 2000 census figures



**Ratios of Outstanding Debt  
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006
\$ 735,000	\$ 1,475,000	\$ 1,405,000	\$ 1,330,000	\$ 1,250,000	\$ 1,170,000
-	11,037	-	-	-	-
34,138	14,065	-	-	-	-
-	-	114,491	242,983	229,102	183,204
769,138	1,500,102	1,519,491	1,572,983	1,479,102	1,353,204
1,765,000	1,630,000	1,485,000	1,330,000	1,165,000	990,000
74,440	10,000	-	-	-	-
7,862,461	7,682,354	7,492,247	7,292,140	7,077,033	6,799,449
9,701,901	9,322,354	8,977,247	8,622,140	8,242,033	7,789,449
<b>\$ 10,471,039</b>	<b>\$ 10,822,456</b>	<b>\$ 10,496,738</b>	<b>\$ 10,195,123</b>	<b>\$ 9,721,135</b>	<b>\$ 9,142,653</b>
\$ 2,803,549	\$ 2,860,581	\$ 2,927,320	\$ 3,064,536	\$ 3,083,449	N/A
26.77%	26.43%	27.89%	30.06%	31.72%	N/A
8,389	8,389	8,389	8,389	8,389	8,389
\$ 1,248	\$ 1,290	\$ 1,251	\$ 1,215	\$ 1,159	\$ 1,090

## City of Charlotte, Michigan

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Fiscal Year	Tax-limited General Obligation Bonds (LTGO)	Tax- supported Bonds (UTGO)	Less Pledged Debt Service Funds	Other General Obligation Debt	Net General Bonded Debt
1997	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
1998	90,000	-	-	77,065	167,065
1999	70,000	-	-	70,853	140,853
2000	-	-	-	53,045	53,045
2001	735,000	-	-	34,138	769,138
2002	1,475,000	-	-	25,102	1,500,102
2003	1,405,000	-	-	114,491	1,519,491
2004	1,330,000	-	-	242,983	1,572,983
2005	1,250,000	-	-	229,102	1,479,102
2006	1,170,000	-	-	183,204	1,353,204

(1) Estimates not available; amount from 1990 census used.

(2) Estimates not available; amount from 2000 census used.

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**Ratios of General Bonded Debt Outstanding  
Last Ten Fiscal Years**

Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
\$ 114,041,900	0.04	8,083 (1)	\$ 6
120,532,400	0.14	8,083 (1)	21
125,770,400	0.11	8,083 (1)	17
130,532,400	0.04	8,389 (2)	6
137,052,200	0.56	8,389 (2)	92
153,362,100	0.98	8,389 (2)	179
169,260,500	0.90	8,389 (2)	181
175,127,400	0.90	8,389 (2)	188
183,373,000	0.81	8,389 (2)	176
196,457,200	0.69	8,389 (2)	161

# City of Charlotte, Michigan

## Direct and Overlapping Governmental Activities Debt June 30, 2006

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Eaton County	\$ 13,881,938	6.49	\$ 900,938
Eaton Intermediate School District	1,850,000	8.48	156,880
Charlotte Public Schools	<u>61,990,905</u>	41.99	<u>26,029,981</u>
Total overlapping debt	77,722,843		27,087,799
Direct City debt	<u>1,353,204</u>	100.00	<u>1,353,204</u>
Total direct and overlapping debt	<u><b>\$ 79,076,047</b></u>		<u><b>\$ 28,441,003</b></u>

# City of Charlotte, Michigan

## Pledged Revenue Coverage Last Ten Fiscal Years

	Water and Sewer Revenue Bonds							
Fiscal	Gross	Applicable	Net	Debt Service			Coverage	
Year	Revenues	Expenses	Revenues	Principal	Interest	Total	(Percent)	
1997	\$ 1,581,433	\$ 1,142,460	\$ 438,973	\$ 55,000	\$ 81,760	\$ 136,760	320.98	
1998	1,471,560	1,215,395	256,165	110,000	118,026	228,026	112.34	
1999	1,718,373	1,367,442	350,931	115,000	111,389	226,389	155.01	
2000	2,726,734	1,619,150	1,107,584	120,000	445,172	565,172	195.97	
2001	3,216,643	1,447,704	1,768,939	310,000	523,723	833,723	212.17	
2002	3,125,906	1,599,276	1,526,630	297,284	187,788	485,072	314.72	
2003	2,860,608	1,641,493	1,219,115	335,107	502,283	837,390	145.59	
2004	2,906,173	1,739,638	1,166,535	355,107	482,854	837,961	139.21	
2005	2,869,560	1,734,836	1,134,724	380,107	462,249	842,356	134.71	
2006	2,965,448	1,764,385	1,201,063	452,584	346,422	799,006	150.32	

## City of Charlotte, Michigan

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	1997	1998	1999	2000
<b>Calculation of Debt Limit</b>				
State equalized valuation	\$ 117,419,100	\$ 120,506,400	\$ 144,616,300	\$ 155,955,900
10% of taxable value	11,741,910	12,050,640	14,461,630	15,595,590
<b>Calculation of Debt Subject to Limit</b>				
Total debt	2,395,000	2,214,419	2,079,279	10,109,197
Less debt not subject to limit - Revenue bonds	2,240,000	-	-	8,032,675
Net debt subject to limit	155,000	2,214,419	2,079,279	2,076,522
<b>Legal Debt Margin</b>	11,586,910	9,836,221	12,382,351	13,519,068
<b>Net Debt Subject to Limit as Percent of Debt Limit</b>	1.34%	22.51%	16.79%	15.36%

**Legal Debt Margin  
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006
\$ 173,707,200 17,370,720	\$ 173,707,700 17,370,770	\$ 194,451,900 19,445,190	\$ 216,526,900 21,652,690	\$ 232,238,100 23,223,810	\$ 263,924,600 26,392,460
10,471,039	10,812,726	10,382,247	10,195,123	9,721,135	9,721,153
<u>9,627,461</u>	<u>9,312,354</u>	<u>8,977,247</u>	<u>8,622,140</u>	<u>8,242,033</u>	<u>7,789,449</u>
843,578	1,500,372	1,405,000	1,572,983	1,479,102	1,931,704
16,527,142	15,870,398	18,040,190	20,079,707	21,744,708	24,460,756
5.10%	9.45%	7.79%	7.83%	6.80%	7.90%

## **Demographics and Economic Information**

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These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.



# City of Charlotte, Michigan

## Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population		Personal Income (in thousands)*	Per Capita Personal Income	Unemployment Rate
1997	8,083	(1)	\$ 2,332,014	\$ 289	3.70
1998	8,083	(1)	2,452,066	303	4.20
1999	8,083	(1)	2,538,707	314	3.30
2000	8,389	(2)	2,668,226	318	3.20
2001	8,389	(2)	2,803,849	334	3.20
2002	8,389	(2)	2,860,581	341	3.20
2003	8,389	(2)	2,927,320	349	4.00
2004	8,389	(2)	3,064,536	365	4.70
2005	8,389	(2)	3,083,449	368	6.20
2006	8,389	(2)	N/A	-	5.30

(1) Estimates not available; amount from 1990 Census

(2) Estimates not available; amount from 2000 Census

N/A = Information not available

\* Number represents all of Eaton County

Source: U.S. Department of Commerce - Bureau of Economic Analysis website

# City of Charlotte, Michigan

## Principal Employers June 30, 2006

Employer	Number of Employees	Percentage of Total
1 Spartan Motors	740	21.80
2 Charlotte Public Schools	510	15.02
3 Hayes Green Beach Memorial Hospital	477	14.05
4 County of Eaton	400	11.78
5 Wal-Mart Stores, Inc.	291	8.57
6 Meijer, Inc.	280	8.25
7 Eaton Intermediate School District	210	6.19
8 Peckham Vocational Industries	190	5.60
9 Owens-Brockway Glass Container, Inc.	188	5.54
10 Linn Products, Inc.	109	3.21

Information for years prior to fiscal year 2005-2006 is not available.

## **Operating Information**

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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

## City of Charlotte, Michigan

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Function/Program	1997	1998	1999	2000
General government:				
City manager	1	1	2	2
Clerk	2	2	2	2
Assessor	2	2	1	1
Finance and treasury	4	4	4	4
	3	3		
Public safety:				
Police	18	17	19	20
Fire - Full-time	6	5	6	7
Fire - Volunteer	24	25	27	25
Building inspection	-	-	-	-
Public works:				
DPW	14	14	14	16
Water and sewer	7	6	6	6
Community and economic development	1	1	1	1
Total	<u>82</u>	<u>80</u>	<u>82</u>	<u>84</u>

**Full-time Equivalent Government Employees  
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006
2	2	2	2	2	2
2	2	2	2	2	2
1	1	1	1	1	1
4	4	4	4	4	4
20	20	21	21	21	21
6	6	6	6	6	6
25	24	25	24	26	27
-	1	1	1	1	1
14	13	13	13	13	13
6	8	8	8	8	8
1	1	1	1	1	1
<b>81</b>	<b>82</b>	<b>84</b>	<b>83</b>	<b>85</b>	<b>86</b>

## City of Charlotte, Michigan

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Function/Program	1997	1998	1999	2000
Election data:				
Registered voters	5,728	5,728	5,884	5,665
Voters (at the polls or absentee)	3,164	3,164	2,486	1,414
Percent voting	55.24%	55.24%	42.25%	24.96%
Police:				
Physical arrests	799	701	717	719
Traffic violations	1,336	1,280	1,581	1,473
Investigations	3,338	5,358	1,063	1,236
Fire:				
Fire runs	350	350	389	446
Emergency medical runs	92	101	122	134
Inspections	380	380	231	163
Public works - Miles of street resurfaced	-	0.46	1.24	0.92
Parks and recreation - Recreation program attendance	N/A	N/A	N/A	N/A
Water:				
Number of customers billed	3,300	3,300	3,300	3,350
Total daily consumption	1,090,000	1,090,000	1,090,000	1,090,000
Average consumption per user	331	331	331	360
Sewer - Average daily sewage treatment	1,000,000	1,000,000	1,100,000	1,100,000

N/A = Information not available

**Operating Indicators  
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006
5,840	5,959	5,857	5,579	5,908	6,033
3,281	1,345	2,528	1,206	3,937	1,393
56.18%	22.57%	43.16%	21.62%	66.64%	23.09%
800	692	745	775	758	668
1,936	2,020	1,414	1,253	1,133	928
3,058	1,114	2,390	3,204	2,730	2,626
403	397	373	483	541	550
117	129	132	176	204	219
110	212	215	153	162	96
1.81	0.43	1.13	-	-	0.73
N/A	N/A	N/A	N/A	N/A	60
3,353	3,804	3,593	3,614	3,614	3,703
1,033,500	1,064,000	967,806	967,806	967,806	976,435
397	280	270	268	268	264
971,400	975,000	964,450	964,450	978,422	963,250

## City of Charlotte, Michigan

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Function/Program	1997	1998	1999	2000
Police:				
Stations	1	1	1	1
Patrol units	4	4	4	5
Fire:				
Stations	1	1	1	1
Fire response vehicles	7	7	7	7
Emergency response vehicles	-	-	-	-
Public works:				
Streets (miles):				
Major streets	11.33	11.33	11.33	11.33
Local streets	23.41	23.41	23.55	24.38
Sidewalks				
Streetlights	48	48	48	353
Traffic signals	5	5	5	5
Parks and recreation:				
Acreage	180	180	180	180
Developed parks/playgrounds	7	7	7	7
Developed fields (soccer, baseball, etc.)				
Libraries - Branches	1	1	1	1
Water:				
Mains (miles)	46	46	46	47
Fire hydrants	353	353	353	360
Storage capacity	2,330,900	2,330,900	233,090	233,090
Sewer:				
Miles of sanitary sewers	38	38	38	39
Miles of storm sewers	30	30	30	30
Treatment capacity	1,200,000	1,200,000	1,200,000	1,200,000



**Capital Asset Statistics  
Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006
1 5	1 7	1 7	1 7	1 8	1 10
1 7 -	1 7 -	1 7 1	1 7 1	1 8 1	1 8 1
11.33 24.38	11.33 24.38	11.45 26.05	11.45 26.05	11.45 26.26	11.41 26.26
353 6	353 6	353 6	353 7	353 7	353 7
199 7	199 7	199 7	199 7	199 7	199 8
1	1	1	1	1	1
51 397 233,090	51 400 460,800	52 413 460,800	52 429 1,150,000	52 431 1,150,000	52 433 1,150,000
40 30 1,200,000	40 30 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000

# **City of Charlotte, Michigan**

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**Report to the City Council**

**June 30, 2006**

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moran

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

We recently completed our audit of the basic financial statements of the City of Charlotte, Michigan for the year ended June 30, 2006. During the performance of our audit, we noted items related to the internal control systems and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below:

TITLE	PAGE
<b>Recommendations</b>	
Internal Controls	3
Water Loss	4
Retiree Health Care Benefits	5
<b>Legislative Issues</b>	
State-shared Revenue	7-8
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To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

We appreciate the opportunity to be of service to the City of Charlotte. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

*Plante & Moran, PLLC*

September 22, 2006

## **Recommendations**

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# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2006**

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#### **Internal Controls**

Over a relatively short period of time, there have been several documented large fraud-related cases in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as their board/council members, regarding their organization's vulnerability to internal or external fraud-related activities. It is strongly believed that all organizations (small and large) have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity. Through many recent conversations with our clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure which includes sound accounting and internal control policies and procedures. The item below was identified as an area for potential improvement in the City's internal control procedures:

- One of the primary internal control measures an organization can have is adequate segregation of duties related to its cash cycles. This typically includes a separation of duties between check writing, initiating wire transfers, access to the general ledger, and preparation of the bank reconciliations. As previously reported, the City's bank reconciliations and wire transfers are currently being performed by an individual who also has access to the general ledger, with no review performed of these activities. The review of bank reconciliations and wire transfers is an important internal control which helps to ensure that the City's cash balances are accurately reflected. With the change of personnel in the clerk's office this year, implementation of this control was not possible; however, in the new fiscal year, the City has implemented a process for the city clerk to review bank reconciliations on a monthly basis. We support and encourage the City's efforts.

# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2006**

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#### **Water Loss**

After taking various development and maintenance issues into consideration, water loss for the current year is approximately 10 percent. Although within industry standards, this, again, is higher than calculated in the previous year. The public works director was able to identify that water pumped into the river during well flushings has not been included in the water loss reconciliations. In the future, pump readings will be taken immediately before and after all well flushings in order to determine the actual number of gallons lost in this process. These results will be factored into future water loss calculations.

# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2006**

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#### **Retiree Health Care Benefits**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.



## **Legislative Issues**

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# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Revenue Sharing**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2005/2006 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 20.6 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2000.

#### **State-shared Revenue**

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$ 448,856	\$ 544,584	\$ 993,440	-
2001	535,608	537,307	1,072,915	N/A
2002	496,055	546,176	1,042,231	N/A
2003	446,427	574,956	1,021,383	N/A
2004	343,373	574,593	917,966	7.6%
2005	319,661	588,304	907,965	8.6%
2006	299,560	598,097	897,657	9.6%

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **State-shared Revenue (Continued)**

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$299,560 at risk in its General Fund budget based on 2006 funding levels. We will continue to update the City as developments occur.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

#### **Update on Business Tax Reform (and Its Impact on Local Government)**

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

#### **Cable Franchise Fees**

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to 5 percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The legislature has decided to wait until after the November elections to continue discussions regarding this bill.

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Task Force Report Issued on Local Government Finance**

In 2005, the governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat, or declining, due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.
- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.
- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings, to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: [www.migfoa.org](http://www.migfoa.org).

#### **911 Surcharge Sunset Extended**

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006).

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Government Wins Headlee Challenge**

The Court of Appeals upheld a trial court decision in July 2006 (A&E Parking v. Wayne County Metro, COA docket No. 261046) that the Wayne County Airport Authority has the right to charge user fees to the more than three dozen companies that sued the Airport Authority. The suit against the Airport Authority alleged that the fees charged to hotels, shuttle and rental car companies, and other users of the property that financially benefit from the airport's location should be deemed illegal taxes under the Headlee Amendment. In rendering their opinion in the Authority's favor, the Court considered the charges appropriate and not taxes for the following reasons:

State law permits fees because:

- The users, such as car rental companies and hotels with shuttles, get a benefit from the airport's existence.
- The fees are not calculated arbitrarily and the users aren't forced to pay the fees.
- The users could choose to take their business elsewhere and avoid the charge.

Despite the victory, it serves as a great reminder to local governments that fees must meet the tests established in the Bolt Case to avoid the classification of fees as un-voted taxes in violation of the Headlee Amendment.

#### **Ballot Proposal**

On September 8, 2006, the Michigan Board of Canvassers, in a 4-0 vote, elected to keep the proposed constitutional amendment that has been labeled "Stop Over Spending" off of the November 7, 2006 ballot. This proposal would have created new restrictions on local government finances, created tighter limits on state government revenues, and ended the pension system for the state legislature.

#### **Transportation Matters**

The State experienced lower than anticipated Act 51 receipts for the State's 2005/2006 fiscal year which ended September 30, 2006. Plante & Moran, PLLC publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Funds. There is also a concern about the State's forecast for fiscal year 2006/2007. We encourage the City to be conservative in budgeting Major and Local Street Fund revenue.

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Transportation Matters (Continued)**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street funds transferred for use on local streets cannot be used for construction but may be used for preservation, and these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as federal match monies on local road projects. The program requires legislation before it becomes effective.

#### **Tax Matters**

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy and was discussed in the fall legislative session. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases, resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Taxing Municipal Recreation Operations**

During the State's fiscal year 2005/2006 budget discussions, a proposal was introduced to put certain municipal operations that are in competition with the private sector on an equal playing field by requiring them to pay certain state taxes paid by the private sector. The main target appears to be municipal golf course operations, but other recreation operations (such as ice arenas) could become part of the scope. There have been hearings on the subject and it is not clear which direction this issue will take.

#### **Personal Property Tax**

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75 percent of the amount owed them. In relation to this matter, during the proceedings related to the change in the multiplier tables, it was discovered that certain utilities may have under-reported their self-constructed assets, creating the potential that monies were due to local governments for underpaid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under-reported self-constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters, leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Property Assessment Cap**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2005 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2006. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation.

Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.



# **City of Charlotte, Michigan**

## **Legislative Issues**

### **June 30, 2006**

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#### **Property Assessment Cap (Continued)**

For the year ended June 30, 2006, the City's Headlee maximum property tax rate for its operating levy was 14.2928 mills even though City Charter would allow the City to levy 15.0000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue, particularly given the significant gap that now exists between taxable value and state equalized value.

#### **Telecommunications Act Changes**

Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the federal and state level to restrict or eliminate the Michigan telecommunications. The regulation of telecommunication companies (including cable operators) would impact franchise fees received by local governments. We encourage the City to monitor their developments closely given the impact that a reduction in cable franchise fees could have on the City's budget.

#### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2006) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.